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ESG: The Brokers' Perspective

A CII Broking Community Report
July 2023



What is ESG?

The component parts of ESG are:

- **Environmental** – climate change, fossil fuels
- **Social** – diversity and inclusion, social mobility
- **Governance** – boardroom ethics, supply chain



The concept of ESG began in 2006 when the Secretary General of the UN – Kofi Annan – launched the Principles for Responsible Investors. Those Principles were developed with the cooperation of institutional investors, designed to promote ethical and sustainable investment. ESG remained an investment concept until relatively recently.

Mainstream interest in ESG coincided with social movements, such as Black Lives Matter and #MeToo. Social inflation and social media also played a part. ESG issues attract widespread media interest amongst the general population. This means that companies have to pay more attention to ESG, in order to make sure that their businesses, products and services meet stakeholders' expectations in terms of strong ESG credentials.

How can taking notice of ESG be beneficial to brokers?

For its own business, creating strong ESG credentials would be beneficial to brokers. McKinsey reports that strong ESG alignment makes good commercial sense, for a number of reasons:

- Talent/new recruits are very discerning and actively seek employers with values aligned with their own; this includes ESG.
- A strong ESG policy translates to lower turnover, and better talent retention.
- By taking note of ESG now, brokers will be ahead of the game as mandatory ESG reporting comes into play.
- ESG also presents opportunities for brokers involved in risk management, as it is another service that can be offered to clients.
- ESG claims are relatively new but, as their frequency and severity increase, brokers may want to consider whether their client portfolio is especially high risk, and whether diversification would be sensible.
- Any sale or purchase of a broking business will include scrutiny of ESG issues.
- Insurers are taking a more proactive approach on ESG, and will be looking to partner with brokers who are equally motivated.
- Perhaps most importantly, ESG is becoming increasingly important to clients, and good understanding of ESG and the risks it presents will be attractive to clients. Again this goes to attraction and retention.



How is ESG impacting brokers' clients?

There are a number of ways:

- » Like every business, clients are grappling with the concept of ESG - some will be a long way down that road, others will be just starting out. Some clients may need quite a lot of handholding and guidance from their broker.
- » ESG claims are on the rise; first of all, claims which have always existed, such as wildfires, storms floods and other climate related losses are becoming more frequent and more severe. Secondly, there are new, ESG specific claims on the horizon. Generally these are claims against companies or the directors and officers claiming that not enough is

being done to anticipate, and protect the company against, ESG risks. Often, these claims involve an activist investor, who may buy a very small shareholding to give themselves standing to bring such a claim. ClientEarth is the most prolific activist investor. What is interesting about these claims is that rather than seek compensation - although they do - their primary purpose is to change corporate behaviours.

- » In terms of clients' vulnerability to ESG claims, Director and Officers and anyone involved in fossil fuels are the most vulnerable - particularly to environmental claims. Professional services firms may also see claims, more likely based on the S or G, perhaps employment type claims. There is also a vulnerability to professional indemnity claims, when a professional has provided ESG consultancy or risk changes.

Graeme Trudgill

(Broking Community Board Member and BIBA Exec Director)



If you'll be able to actually attract a more diverse workforce, that's a good reason to get on and actually look to implement an ESG strategy now.

Get a plan, get the support of leadership and then start looking into the detail.



What are the risks of ignoring ESG?

ESG is everywhere, everyone is talking about it and everyone is expected to have a view on it.

ESG presents a number of opportunities which brokers can take advantage of - new opportunities to attract and retain clients by showing an understanding of ESG, the opportunity to offer additional ESG services to clients such as risk management.

Ignoring ESG could mean that brokers are unattractive prospects both to their clients and to Insurers.

Rules and regulations around ESG reporting

ESG as a concept has been around for a little while now, but there is a lack of consistency in terms of what “good” ESG looks like. A fossil fuel company cannot be judged by the same criteria as an organic farmer for example. At the moment, there is a good deal of confusion around what data is reliable in terms of assessing ESG.

That said, we are seeing increased mandatory reporting around climate, and this compulsory reporting has come sooner than expected. Banks, insurers, listed entities and large occupational pension schemes are already subject to mandatory climate reporting and others will follow, possibly next year.

The FCA has hinted at making diversity reporting compulsory soon, which follows the theme of E, followed by S, followed by G.

Sarah Crowther

(Partner at DAC Beachcroft and member of the DACB ESG Working Group)

“*Operationally, brokers should ask themselves what they can do to show they are improving their carbon footprint, offsetting their emissions, not greenwashing and generally a great firm on all things ESG.*”



Emily Kenna

(Broking Community Board Member)

“*I personally think a lot of people are talking the talk but not truly appreciating the importance. I think insurance companies are doing more than brokers, even the gender pay gap report in insurance companies, but in broking I don't know if we are committed to change.*”



About the event

This report summarises the discussion captured at a CII Broking Community roundtable held on 19 April 2023.

Event participants

Emily Kenna	Broking Community Board Member
Sarah Crowther	Partner at DAC Beachcroft, member of the DACB ESG Working Group
Graeme Trudgill	Broking Community Board Member and BIBA Exec Director
Laura Hancock	MD, Yuwtree Broking Community Chair
Melissa Collett	Former Director for Professional Standards, CII
Tim Nash	Broking Community Board member



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